

**O'Key Group S.A.**

**Consolidated Financial Statements  
for the year ended 31 December 2011**  
(with the report of the Réviseur d'Entreprises  
Agréé thereon)

23, rue Beaumont

L-1219 Luxembourg

R.C.S. Luxembourg: B 80.533

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**KPMG Luxembourg S.à r.l.**  
9, allée Scheffer  
L-2520 Luxembourg

Telephone +352 22 51 51 1  
Fax +352 22 51 71  
Internet [www.kpmg.lu](http://www.kpmg.lu)  
Email [info@kpmg.lu](mailto:info@kpmg.lu)

To the Shareholders of  
O'KEY GROUP S.A.  
23, rue Beaumont  
L-1219 Luxembourg

## **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

### *Report on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of O'KEY GROUP S.A., which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Directors' responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. as of December 31, 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Report on other legal and regulatory requirements*

The consolidated Directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The Corporate Governance Statement on page 30 of the Annual Report 2011 which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law.

Luxembourg, April 20, 2012

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé



Thierry Ravasio

## Consolidated Statement of Financial Position as at 31 December 2011

'000 RUB	Note	2011	2010	1 January 2010
	2(e)		Restated	Restated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment Property	17	573 000	517 000	1 567 424
Property, plant and equipment	15	20 435 107	16 599 565	19 067 102
Construction in progress	15	3 136 848	1 204 602	974 042
Intangible assets	16	518 099	559 252	481 426
Long-term loans issued		-	1 338	9 362
Deferred tax asset	19	356 034	194 009	243 107
Other non-current assets	18	5 530 502	4 194 648	3 622 627
<b>Total non-current assets</b>		<b>30 549 590</b>	<b>23 270 414</b>	<b>25 965 090</b>
<b>Current assets</b>				
Inventories	20	7 917 657	5 995 208	5 145 489
Trade and other receivables	21	1 924 108	1 276 531	980 402
Prepayments for current assets		398 595	677 703	463 162
Short-term loans issued		-	31	1 724
Cash and cash equivalents	22	2 941 947	5 707 185	1 462 312
<b>Total current assets</b>		<b>13 182 307</b>	<b>13 656 658</b>	<b>8 053 089</b>
<b>Total assets</b>		<b>43 731 897</b>	<b>36 927 072</b>	<b>34 018 179</b>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.

## Consolidated Statement of Financial Position as at 31 December 2011

'000 RUB	Note	2011	2010	1 January 2010
	2(e)		Restated	Restated
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>	23	14 303 743	11 734 192	7 193 183
<b>Non-current liabilities</b>				
Loans and borrowings	25	6 768 282	7 869 355	9 026 488
Deferred income tax liability	19	470 839	309 350	406 889
Deferred income		-	-	1 108
Other non-current liabilities		1 137 192	1 101 942	-
<b>Total non-current liabilities</b>		<b>8 376 313</b>	<b>9 280 647</b>	<b>9 434 485</b>
<b>Current liabilities</b>				
Loans and borrowings	25	5 302 948	3 702 261	6 439 677
Trade and other payables	26	15 337 559	11 736 964	10 800 614
Current income tax payable		411 334	473 008	150 220
<b>Total current liabilities</b>		<b>21 051 841</b>	<b>15 912 233</b>	<b>17 390 511</b>
<b>Total liabilities</b>		<b>29 428 154</b>	<b>25 192 880</b>	<b>26 824 996</b>
<b>Total equity and liabilities</b>		<b>43 731 897</b>	<b>36 927 072</b>	<b>34 018 179</b>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

'000 RUB	Note	2011	2010
	2(e)		Restated
Revenue	7	93 134 430	82 666 633
Cost of goods sold		(71 853 387)	(64 742 611)
<b>Gross profit</b>		<b>21 281 043</b>	<b>17 924 022</b>
General, selling and administrative expenses	8	(15 749 895)	(12 406 423)
Other operating income and expenses	9	(142 628)	(121 714)
<b>Operating profit</b>		<b>5 388 520</b>	<b>5 395 885</b>
Finance income	12	25 216	16 583
Finance costs	12	(777 463)	(1 354 208)
Foreign exchange losses	13	(266 619)	(112 174)
<b>Profit before income tax</b>		<b>4 369 654</b>	<b>3 946 086</b>
Income tax expense	14	(1 129 774)	(1 262 078)
<b>Profit for the year</b>		<b>3 239 880</b>	<b>2 684 008</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		(58 636)	150 319
Change in fair value of hedges and reclassification from hedging reserve	12	201 422	140 765
Income tax on other comprehensive income	14	(40 285)	(28 153)
<b>Other comprehensive income for the year, net of income tax</b>		<b>102 501</b>	<b>262 931</b>
<b>Total comprehensive income for the year</b>		<b>3 342 381</b>	<b>2 946 939</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RUB) - restated	24, 2(e)	<b>12.0</b>	<b>10.5</b>

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2010, as previously reported		109 815	111	3 676 612	(105 127)	(387 575)	3 735 520	106 436	7 135 792
Impact of change in accounting policy	2(e)	-	-	-	-	3 792 911	(3 735 520)	-	57 391
Balance at 1 January 2010 (restated)		109 815	111	3 676 612	(105 127)	3 405 336	-	106 436	7 193 183
<b>Total comprehensive income for the year</b>									
Profit for the year (restated)		-	-	-	-	2 684 008	-	-	2 684 008
<b>Other comprehensive income</b>									
Foreign currency translation differences		-	-	-	-	-	-	150 319	150 319
Change in fair value of hedges	12	-	-	-	140 765	-	-	-	140 765
Income tax on other comprehensive income	14	-	-	-	(28 153)	-	-	-	(28 153)
<b>Total other comprehensive income</b>					112 612	-	-	150 319	262 931
<b>Total comprehensive income for the year</b>					112 612	2 684 008	-	150 319	2 946 939
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Issue of shares	23	9 625	-	5 226 994	-	-	-	-	5 236 619
Interim dividends paid	23	-	-	-	-	(587 489)	-	-	(587 489)
Distributions to shareholders (restated)	6, 2(e)	-	-	-	-	(3 055 060)	-	-	(3 055 060)
Total contributions by and distributions to owners		9 625	-	5 226 994	-	(3 642 549)	-	-	1 594 070
Balance at 31 December 2010 (restated)		119 440	111	8 903 606	7 485	2 446 795	-	256 755	11 734 192

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.



## Consolidated Statement of Changes in Equity for the year ended 31 December 2011

	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
'000 RUB								
Balance at 1 January 2011 (restated)		119 440	111	8 903 606	7 485	2 446 795	256 755	11 734 192
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	3 239 880	-	3 239 880
<b>Other comprehensive income</b>								
Foreign currency translation differences		-	-	-	-	-	(58 636)	(58 636)
Change in fair value of hedges	12	-	-	-	201 422	-	-	201 422
Income tax on other comprehensive income	14	-	-	-	(40 285)	-	-	(40 285)
<b>Total other comprehensive income</b>					161 137	-	(58 636)	102 501
<b>Total comprehensive income for the year</b>					161 137	3 239 880	(58 636)	3 342 381
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Interim dividends paid	23	-	-	-	-	(772 830)	-	(772 830)
Allocation to legal reserve	23	-	10 486	-	-	(10 486)	-	-
Total contributions by and distributions to owners		-	10 486	-	-	(783 316)	-	(772 830)
Balance at 31 December 2011		119 440	10 597	8 903 606	168 622	4 903 359	198 119	14 303 743

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.

## Consolidated Statement of Cash Flows for the year ended 31 December 2011

'000 RUB	Note	2011	2010
	2(e)		Restated
<b>Cash flows from operating activities</b>			
Profit before income tax		4 369 654	3 946 086
<i>Adjustments for:</i>			
Depreciation and amortisation	15, 16, 18	1 977 278	1 571 980
Loss on disposal of property, plant and equipment, investment property, intangible assets and other non-current assets	9	18 620	63 539
Gain from revaluation of investment property	17	(18 633)	(7 964)
Finance income	12	(25 216)	(16 583)
Finance costs	12	777 463	1 354 208
Foreign exchange losses less gains	13	266 619	112 174
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>7 365 785</b>	<b>7 023 440</b>
Change in net trade and other receivables		113 696	(146 061)
Change in inventories		(1 922 449)	(850 239)
Change in trade and other payables		3 142 085	1 394 376
Change in deferred income		-	(1 108)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>8 699 117</b>	<b>7 420 408</b>
Interest paid		(902 149)	(1 421 815)
Income tax paid		(1 396 052)	(887 673)
<b>Net cash from operating activities</b>		<b>6 400 916</b>	<b>5 110 920</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and initial cost of land lease		(8 623 578)	(3 240 166)
Purchase of intangible assets		(115 249)	(216 204)
Proceeds from sales of property, plant and equipment and investment property		19 703	55 319
Loans issued		1 369	(8 705)
Interest received		25 216	16 583
<b>Net cash used in investing activities</b>		<b>(8 692 539)</b>	<b>(3 393 173)</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.

Consolidated Statement of Cash Flows for the year ended 31 December 2011

'000 RUB	Note	2011	2010
	2(e)		Restated
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		16 971 297	27 696 985
Repayment of borrowings		(16 800 281)	(29 888 926)
Interim dividends paid		(772 830)	(587 489)
Disposal of subsidiaries net of cash disposed		-	(775 295)
Guarantee received	15	-	914 307
Proceeds from issue of shares in 2010		152 568	5 084 051
Repayment of finance lease payables		-	(39 435)
<b>Net cash (used in)/ from financing activities</b>		<b>(449 246)</b>	<b>2 404 198</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		<b>(2 740 869)</b>	<b>4 121 945</b>
Cash and cash equivalents at beginning of year		5 707 185	1 462 312
Effect of exchange rate fluctuations on cash and cash equivalents		(24 369)	122 928
<b>Cash and cash equivalents at end of year</b>	22	<b>2 941 947</b>	<b>5 707 185</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 64.

## **1 Background**

### **(a) Organisation and operations**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2011 for O'Key Group S.A. and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The major shareholders of the Group are four individuals, Mr.Korzhev, Mr.Troitsky, Mr.Volchek and Mr.Teder ("the shareholder group"), who have the power to direct the transactions of the Group at their own discretion and for their own benefits. They also have a number of other business interests outside of the Group.

As at 31 December 2011 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs).

Related party transactions are detailed in Note 31.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'Key". At 31 December 2011 the Group operated 71 stores (31 December 2010: 58 stores).

The Company's registered address is: Luxembourg 23, rue Beaumont, L-1219 Luxembourg.

### **(b) Business environment**

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 20 April 2012.

**(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are stated at fair value;
- Liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value;
- Investment property is remeasured at fair value.

**(c) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles.

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
- profit and loss items for each statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 32.1961; EUR 1 = RUB 41.6714 (2010: USD 1 = RUB 30.4769; EUR 1 = RUB 40.3331).

**(d) Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Tax legislation.** The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to

Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 30.

**Revenue recognition.** The Group has recognised revenue amounting to RUB 92 197 million for sales of goods during 2011 (2010: RUB 81 688 million). According to the Group's policy customers have the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

**Deferred tax asset recognition.** The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

**Determination of net realizable value of inventory.** The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realizable value when necessary. For details of approach used for determination of net realizable value refer to note 20.

**Determination of fair value of liabilities incurred in cash-settled share-based payment transactions.** The Group's remeasures liabilities incurred in cash-settled share-based payment transactions at fair value as at each reporting date, which requires making judgments and assumptions about future market and vesting conditions.

(e) **Changes in accounting policies**

At the end of 2011 the Group changed its accounting policies in relation to accounting for land and buildings. The Group decided to account for land and buildings using the Cost model as described in IAS 16 *Property, Plant and Equipment*. Previously land and buildings were accounted for using the Revaluation model.

Management believes that such change should result in the consolidated financial statements providing more reliable and relevant information about the the Group's operations. Before such change Group's net profit showed significant fluctuations depending on changes in Russia's real estate market rather than reflecting the Group's operational performance as a retailer. It also caused incomparability of the Group's net profit to competitors on the market as retailers usually do not apply revaluation model in accounting for property, plant and equipment.

Comparative information has been restated so that it is also in conformity with the revised accounting policy. The effect on the consolidated statement of financial position and the consolidated statement of comprehensive income was as follows:

Effect on on the consolidated statement of financial position as at 1 January 2010:

'000 RUB	<u>1 January 2010 as previously reported</u>	<u>Effect of change in accounting policy</u>	<u>1 January 2010 restated</u>
<b>ASSETS</b>			
Property, plant and equipment	18 995 363	71 739	19 067 102
<b>EQUITY AND LIABILITIES</b>			
Retained earnings	(387 575)	3 792 911	3 405 336
Revaluation reserve	3 735 520	(3 735 520)	-
Deferred income tax liability	392 541	14 348	406 889

Effect on on the consolidated statement of financial position as at 31 December 2010:

'000 RUB	<u>31 December 2010 as previously reported</u>	<u>Effect of change in accounting policy</u>	<u>31 December 2010 restated</u>
<b>ASSETS</b>			
Property, plant and equipment	17 533 638	(934 073)	16 599 565
<b>EQUITY AND LIABILITIES</b>			
Retained earnings	(168 606)	2 615 401	2 446 795
Revaluation reserve	3 362 660	(3 362 660)	-
Deferred income tax liability	496 164	(186 814)	309 350

Change of accounting policy resulted in decrease of property, plant and equipment as at 31 December 2010 by RUB 934 073 thousand (1 January 2010: increase of RUB 71 739 thousand with corresponding decrease of deferred income tax liability as at 31 December 2010 by RUB 186 814 thousand (1 January 2010: increase of RUB 14 348 thousand).

Revaluation reserve as at 31 December 2010 and 1 January 2010 was decreased down to Nil.

Effect on the consolidated statement of comprehensive income for the year ended 31 December 2010:

'000 RUB	<u>2010 as previously reported</u>	<u>Effect of change in accounting policy</u>	<u>2010 restated</u>
<b>Profit and loss</b>			
General, selling and administrative expenses	(12 407 970)	1 547	(12 406 423)
Other operating income and expenses	274 827	(396 541)	(121 714)
Income tax expense	(1 338 086)	76 008	(1 262 078)
<b>Other comprehensive income</b>			
Revaluation of property, plant and equipment	721 306	(721 306)	-
Income tax on other comprehensive income	(172 414)	144 261	(28 153)
<b>Earnings per share</b>			
Basic and diluted earnings per share (RUB)	11.7	(1.2)	10.5

Change of accounting policy resulted in decrease of depreciation expense for the year ended 31 December 2010 by RUB 1 547 thousand which was recorded in profit and loss as reduction of general, selling and administrative expenses. Reversal of revaluation loss on property, plant and equipment previously recorded in profit and loss in the amount of RUB 396 541 thousand for the year ended 31 December 2010 was reversed. Revaluation gain on property, plant and equipment previously recorded in other comprehensive income in the amount of RUB 721 306 thousand for the year ended 31 December 2010 was reversed. Tax effect of re-statements was recorded in profit and loss and other comprehensive income for the year ended 31 December 2010 in the amount of RUB 76 008 thousand and RUB 144 261 thousand, respectively.

Earnings per share have been restated for the year ended 31 December 2010 accordingly.

During the year ended 31 December 2010 the Group disposed several subsidiaries to an entity controlled by the shareholder group. The difference between net assets disposed and consideration received adjusted for tax effect of disposition was recognized directly in equity during the year ended 31 December 2010 as distribution to shareholders.

The effect of change in accounting policy in relation to property, plant and equipment was to decrease net assets of disposed subsidiaries by RUB 91 381 thousand.

The effect of disposition on the consolidated statement of changes in equity was restated as follows: the amount of distribution to shareholders for the year ended 31 December 2010 was decreased by RUB 91 381 thousand from RUB 3 146 441 thousand to RUB 3 055 060 thousand (see note 6) and the amount of transfer of revaluation reserve on disposed assets to retained earnings was decreased from RUB 949 905 thousand to Nil.



### 3 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

#### (a) Basis of consolidation

##### (i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

##### (ii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### (b) Foreign currency

##### (i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

##### (ii) *Foreign operations*

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining

control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

**(c) Financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

**(i) Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(ii) Non-derivative financial liabilities**

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

**(iii) Derivative financial instruments**

The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects

profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

**(d) Transactions with owners**

**(i) Ordinary shares/share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(ii) Distributions to owners/contributions from owners**

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

**(e) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other income" in profit or loss.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

• Buildings	30 years
• Machinery and equipment, auxiliary facilities	2-20 years
• Motor vehicles	5-10 years
• Leasehold improvements	over the term of underlying lease
• Other fixed assets	2-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(f) Investment property**

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(g) Intangible assets**

**(i) Other intangible assets**

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

**(ii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

**(iii) Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- lease rights 5-10 years
- software 1-7 years
- other intangible assets 1-5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(h) Leased assets****(i) Operating leases**

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortized using straight-line method over the period of lease being up to 51 years.

**(ii) Finance leases**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

**(i) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(j) Impairment****(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of

impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(k) Employee benefits**

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**(ii) Other long-term employee benefits**

Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

**(iii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(iv) Cash-settled share-based payment transactions**

The fair value of the amount payable to employees in respect of cash-settled share-based payment transactions is recognised as an employee expense in profit and loss with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes of the fair value of the liability are recognised as personnel expenses in profit or loss.



**(l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(m) Revenue**

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

**(i) Goods sold**

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

**(ii) Services**

Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

**(n) Cost of sales**

Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

**(o) Finance income and costs**

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(p) Income tax**

Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(q) Earnings per share**

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

**(r) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed

regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(s) Value added tax**

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

**(t) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013 and the amendments to IFRS 9 introduced in December 2011 will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to

measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the amendment to IAS 1 on its financial position or performance.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

## 4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a

willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

**(b) Non-derivative financial assets**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

**(c) Derivatives**

The fair value of interest rate and foreign exchange swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

**(d) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**(e) Share-based payment transactions**

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of Company's historic volatility), expected term of the instruments, expected dividends and the risk-free interest rate.

## **5 Operating segments**

The Group is engaged in management of retail stores located in Russia and has identified retail operations as a single reportable segment. Although the Group is not exposed to concentration of sales to individual customers, all the Group's sales are in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group's chief operating decision maker has been determined as the CEO.

The Group operating segments represent individual retail stores. Due to similar economic characteristics (refer below) they were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the Group manages its operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items. EBITDA is non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements as described in note 3.

The segment information for the year ended 31 December 2011 is as follows:

'000 RUB	2011	2010
Revenue	93 134 430	82 666 633
EBITDA	7 510 137	7 126 676

A reconciliation of EBITDA to profit for the year is as follows:

'000 RUB	2011	2010
		Restated*
EBITDA	7 510 137	7 126 676
Revaluation of investment property	18 633	7 964
Loss from disposal of non-current assets	(18 620)	(63 539)
Loss from write-off of receivables	(31 973)	(66 395)
Reversal of impairment of receivables	61 884	(36 841)
Depreciation and amortisation	(1 977 278)	(1 571 980)
Impairment of raw materials (one-off)	(101 205)	-
Finance income	25 216	16 583
Finance costs	(777 463)	(1 354 208)
Foreign exchange losses	(266 619)	(112 174)
Hypermarket Ozerki-accident expenses	(73 058)	-
Profit before income tax	4 369 654	3 946 086
Income tax	(1 129 774)	(1 262 078)
Profit for the year	3 239 880	2 684 008

\* - see note 2(e)

In January 2011 section of roof of Group's hypermarket in Ozerki, Saint-Petersburg collapsed. The store was closed for repairs until September 2011. Hypermarket Ozerki-accident expenses comprise repairs and other expenses related to this accident.

## 6 Distribution of assets

On 23 December 2010 the Group disposed of its 100% owned subsidiaries Denovex Limited, Dextenco Co Limited, Filorus Limited, Lonmax Limited, Macropia Limited, Naviline Limited, Ricandano Co Limited, Gelarous Co Limited, Lefkosan Co Limited, Siltom Holdings Limited, LLC Dorinda Invest, LLC Premium, LLC BC Okkervil, LLC Elart, LLC Legion, LLC Rampazh, LLC Dorinda-Murmansk, LLC N.E.F.-Saint-Petersburg, LLC Region to an entity controlled by the shareholder group (see note 1(a)).

Although the majority of disposed subsidiaries did not own significant assets, some of the disposed subsidiaries owned vacant and developed land plots, long-term lease rights for several developed and vacant land plots, two trade centers for which development has not been completed and three operating O'Key hypermarkets.

Immediately after disposition, the Group leased back three operating O'Key hypermarkets and nearby areas, including parking space and other related assets, under an operating lease. Terms of the lease are such that the Group should pay rentals which will include the reimbursement of all

operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of Group's retail revenue from operation of these hypermarkets.

Contribution of disposed subsidiaries to Group's profit for the year ended 31 December 2010 was not significant.

The disposal of the subsidiaries had the following effect on the Group's assets and liabilities at the date of disposal:

'000 RUB	Note	<u>Carrying amount at date of disposal</u>
<b>Non-current assets</b>	2(e)	<b>Restated</b>
Investment property	17	1 083 803
Property, plant and equipment	15	3 906 832
Construction in progress	15	116 457
Investments		18 422
Deferred tax assets		35 017
Other non-current assets		500 578
<b>Current assets</b>		
Inventories		520
Trade and other receivables		431 706
Cash and cash equivalents		790 178
<b>Non-current liabilities</b>		
Loans and borrowings		(1 626 456)
Deferred tax liabilities		(303 373)
Other non-current liabilities		(1 230 551)
<b>Current liabilities</b>		
Loans and borrowings		(142 499)
Trade and other payables		(771 875)
Current income tax payable		(10 626)
<b>Net identifiable assets and liabilities</b>		<u>2 798 133</u>
Excess of carrying values of net assets distributed over consideration received		2 783 250
Consideration received, satisfied in cash		14 883
Cash disposed of		(790 178)
Net cash outflow		<u>(775 295)</u>

Difference between net assets disposed and consideration received adjusted for tax effect of disposition (RUB 271 810 thousand) was recognized directly in equity for the year ended 31 December 2010 as distributions to shareholders.



## 7 Revenue

'000 RUB	2011	2010
Sales of trading stock	87 796 613	77 699 520
Sales of self-produced catering products	4 400 126	3 987 986
Revenue from sale of goods	92 196 739	81 687 506
Rental income	733 164	705 937
Revenue from advertising services	204 527	273 190
<b>Total revenues</b>	<b>93 134 430</b>	<b>82 666 633</b>

Total revenues comprise sale of goods, rental income from tenants which rent trade area in the Group stores and income from placing advertising in the Group stores.

## 8 General, selling and administrative expenses

'000 RUB	Note	2011	2010
	2(e)		Restated
Personnel costs	10	(7 538 304)	(5 989 087)
Depreciation and amortization		(1 977 278)	(1 571 980)
Operating leases		(1 672 616)	(1 069 935)
Communication and utilities		(1 503 215)	(1 101 438)
Security expenses		(659 657)	(520 781)
Advertising and marketing		(508 338)	(429 923)
Materials and supplies		(404 607)	(357 473)
Operating taxes		(369 119)	(348 872)
Insurance and bank commission		(349 383)	(327 795)
Repairs and maintenance costs		(308 122)	(257 120)
Legal and professional expenses		(261 981)	(163 292)
Other costs		(197 275)	(268 727)
		<b>(15 749 895)</b>	<b>(12 406 423)</b>

Fees billed to the Company and its subsidiaries by KPMG Luxembourg S.à r.l., and other member firms of the KPMG network during the year are as follows:

'000 RUB	2011	2010
Auditors' remuneration for annual and consolidated accounts	15 207	17 165
Auditors' remuneration for other assurance services	7 255	24 511
Auditors' remuneration for tax advisory services	79	259
Auditors' remuneration for non-audit services	3 735	4 335
	<b>26 276</b>	<b>46 270</b>

## 9 Other operating income and expenses

'000 RUB	Note	2011	2010
	2(e)		<b>Restated</b>
Loss from disposal of non-current assets		(18 620)	(63 539)
Loss from write-off of receivables		(31 973)	(66 395)
Reversal of impairment/(impairment) of receivables	27	61 884	(36 841)
Gain from revaluation of investment property	17	18 633	7 964
Impairment of raw materials (one-off)		(101 205)	-
Ozerki-accident expenses		(73 058)	-
Sundry income		1 711	37 097
		<b>(142 628)</b>	<b>(121 714)</b>

## 10 Personnel costs

'000 RUB	Note	2011	2010
Wages and salaries		(4 503 911)	(3 802 377)
Social security contributions		(1 647 603)	(1 042 651)
Employee benefits		(1 207 964)	(1 099 679)
Share-based payments	11	(50 961)	-
Other		(127 865)	(44 380)
<b>Total personnel costs</b>		<b>(7 538 304)</b>	<b>(5 989 087)</b>

During the year ended 31 December 2011 the Group employed 16 thousand employees on average (2010: 14 thousand employees on average). Approximately 93% of employees are store employees and the remaining part is office employees.

## 11 Share-based payment arrangements

During the year ended 31 December 2011 the Group granted share appreciation rights to key management personnel and senior employees that entitle them to cash payment in the years ending 31 December 2012 and 31 December 2013. The amount of cash payments is based on share price of the Company at the dates of exercise. The payments are subject to service conditions which require employees to stay with the Group until settlement date.

The fair value of the rights granted to the employees was measured based on Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

The inputs used in the measurement of the fair value at 31 December 2011 were as follows:

### Rights with settlement date during the year ending 31 December

	2012	2013
Share price	USD 6.85	USD 6.85
Exercise price	Nil	USD 11.00
Expected volatility	58.8%	58.8%
Risk-free rate	2.5%	2.5%
Annual dividend yield	0.68%	0.68%
Term until exercise date	0.34 years	1.85 years

Total expense on share appreciation rights recognised as personnel costs in general, selling and administrative expenses in profit and loss amounted to RUB 50 961 thousand for the year ended 31 December 2011 (2010: Nil). Carrying amount of liabilities as at 31 December 2011 amounted to RUB 50 961 thousand (2010: Nil), including long-term liabilities in the amount of RUB 17 627 thousand.

**12 Finance income and finance costs**

'000 RUB	2011	2010
<b>Recognised in profit or loss</b>		
Interest income on loans and receivables	24 800	11 116
Other finance income	416	5 467
<b>Finance income</b>	<b>25 216</b>	<b>16 583</b>
Interest costs on loans and borrowings	(811 783)	(1 237 793)
Reclassification from hedging reserve	34 320	(93 377)
Ineffective hedges	-	(22 829)
Finance leasing costs	-	(209)
<b>Finance costs</b>	<b>(777 463)</b>	<b>(1 354 208)</b>
<b>Net finance costs recognised in profit or loss</b>	<b>(752 247)</b>	<b>(1 337 625)</b>
The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:		
Total interest income on financial assets	25 216	16 583
Total interest expense on financial liabilities	(777 463)	(1 331 379)

'000 RUB	2011	2010
<b>Recognised in other comprehensive income</b>		
Change in fair value of hedges	310 811	47 388
Reclassification to profit and loss	(109 389)	93 377
Income tax on income and expense recognised in other comprehensive income	(40 285)	(28 153)
Finance income recognised in other comprehensive income, net of tax	161 137	112 612

During 2011 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 101 627 thousand (2010: RUB 89 247 thousand).

In 2011 capitalisation rate of 5.16% was used to determine the amount of borrowing costs eligible for capitalisation (2010: 6.4%).

### 13 Foreign exchange losses

During 2011 the Group had significant borrowings denominated in US dollars. The weakening of Russian Rouble during 2011 has resulted in foreign exchange loss for the year amounting to RUB 266 619 thousand (2010: RUB 112 174 thousand). In 2011 and 2010 the Group has used hedging instruments to hedge foreign exchange risks.

For the current period, the Group's risk management policy is to convert part of its USD denominated debt into RUB denominated debt. In order to comply with the Group's risk management policy, the foreign exchange risk arising from repayment of long-term USD denominated debt is hedged.

### 14 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2010: 20%).

'000 RUB	2011	2010
		<b>Restated*</b>
Current tax expense	(1 170 595)	(1 133 667)
Deferred tax benefit/(expense)	40 821	(128 411)
Total income tax expense	(1 129 774)	(1 262 078)

\* - see note 2(e)

**Income tax recognised directly in other comprehensive income**

'000 RUB	2011			2010 (restated)*		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(58 636)	-	(58 636)	150 319	-	150 319
Change in fair value of hedges	201 422	(40 285)	161 137	140 765	(28 153)	112 612
	<b>142 786</b>	<b>(40 285)</b>	<b>102 501</b>	<b>291 084</b>	<b>(28 153)</b>	<b>262 931</b>

\* - see note 2(e)

**Reconciliation of effective tax rate:**

'000 RUB	2011	2010
		Restated*
Profit before income tax	<b>4 369 654</b>	<b>3 946 086</b>
Income tax at applicable tax rate (2011: 20%, 2010: 20%)	(873 931)	(789 217)
Effect of income taxed at different rates	2 867	(8 814)
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(307 301)	(259 498)
- Other non-deductible expenses	(58 702)	(124 086)
Tax withheld on dividends received from subsidiaries	(91 204)	(106 092)
Adjustments to current income tax for previous periods	201 441	49 562
Other items	(2 944)	(23 933)
<b>Income tax expense for the year</b>	<b>(1 129 774)</b>	<b>(1 262 078)</b>

\* - see note 2(e)

## 15 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
	Restated*	Restated*						Restated*
<i>Cost or deemed cost</i>								
Balance at 1 January 2010	3 596 158	13 903 196	695 855	29 627	3 099 213	1 295 536	974 042	23 593 627
Additions	171 848	321 208	841 588	7 552	965 095	307 578	608 983	3 223 852
Transfers	924	27 159	104 716	1 041	100 786	(1 548)	(233 078)	-
Distribution of assets	(1 743 079)	(2 360 548)	-	(155)	(116 776)	-	(116 457)	(4 337 015)
Disposals	-	-	-	(2 670)	(27 343)	(19 104)	(28 888)	(78 005)
Balance at 31 December 2010	2 025 851	11 891 015	1 642 159	35 395	4 020 975	1 582 462	1 204 602	22 402 459

\* - see note 2(e)

'000 RUB	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Balance at 1 January 2011	2 025 851	11 891 015	1 642 159	35 395	4 020 975	1 582 462	1 204 602	22 402 459
Additions	839 019	2 034 256	832 645	810	1 044 531	483 610	2 328 914	7 563 785
Transfers	-	267 896	51 922	286	39 419	12 232	(371 755)	-
Transfers to Investment property	-	-	-	-	-	-	(9 260)	(9 260)
Disposals	-	-	-	(445)	(73 475)	(23 680)	(15 653)	(113 253)
Balance at 31 December 2011	<b>2 864 870</b>	<b>14 193 167</b>	<b>2 526 726</b>	<b>36 046</b>	<b>5 031 450</b>	<b>2 054 624</b>	<b>3 136 848</b>	<b>29 843 731</b>
<i>Depreciation and impairment losses</i>		<b>Restated*</b>						<b>Restated*</b>
Balance at 1 January 2010	-	(1 229 185)	(42 522)	(16 026)	(1 460 668)	(804 082)	-	(3 552 483)
Depreciation for the year	-	(383 691)	(86 408)	(3 808)	(621 987)	(291 387)	-	(1 387 281)
Distribution of assets	-	268 274	-	-	45 452	-	-	313 726
Disposals	-	-	-	2 670	20 396	4 680	-	27 746
Balance at 31 December 2010	-	<b>(1 344 602)</b>	<b>(128 930)</b>	<b>(17 164)</b>	<b>(2 016 807)</b>	<b>(1 090 789)</b>	-	<b>(4 598 292)</b>

\* - see note 2(e)



'000 RUB	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Balance at 1 January 2011	-	(1 344 602)	(128 930)	(17 164)	(2 016 807)	(1 090 789)	-	(4 598 292)
Depreciation for the year	-	(408 279)	(190 238)	(2 862)	(710 801)	(447 958)	-	(1 760 138)
Transfers	-	(13)	13	-	(10)	10	-	-
Disposals	-	-	-	420	66 685	19 549	-	86 654
Balance at 31 December 2011	-	(1 752 894)	(319 155)	(19 606)	(2 660 933)	(1 519 188)	-	(6 271 776)
<b>Carrying amounts</b>								
At 1 January 2010 (restated)	3 596 158	12 674 011	653 333	13 601	1 638 545	491 454	974 042	20 041 144
At 31 December 2010 (restated)	2 025 851	10 546 413	1 513 229	18 231	2 004 168	491 673	1 204 602	17 804 167
At 31 December 2011	2 864 870	12 440 273	2 207 571	16 440	2 370 517	535 436	3 136 848	23 571 955

Depreciation expense of RUB 1 760 138 thousand has been charged to selling, general and administrative expenses (2010: RUB 1 387 281 thousand).

**Security**

At 31 December 2011 property, plant and equipment carried at RUB 4 214 640 thousand (2010: RUB 4 897 301 thousand) have been pledged to third parties as collateral for borrowings. Refer to notes 25 and 30.

In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 554 967 thousand as at 31 December 2011. Under terms of this agreement the third party will build a trade center on this land plot. Upon completion of construction the Group will exchange part of land plot for part of trade center and will locate O'Key hypermarket there. In 2010 the Group received guarantee payment in relation to this transaction. Guarantee received was included in other non-current liabilities and amounted to RUB 914 307 thousand as at the date of receipt and to RUB 965 883 thousand as at 31 December 2011.

## 16 Intangible assets

'000 RUB	Software	Lease rights	Other intangible assets	Total
<b>Cost</b>				
Balance at 1 January 2010	200 002	491 475	-	691 477
Additions	216 204	-	-	216 204
Balance at 31 December 2010	<b>416 206</b>	<b>491 475</b>	-	<b>907 681</b>
Balance at 1 January 2011	416 206	491 475	-	907 681
Additions	101 219	-	14 030	115 249
Balance at 31 December 2011	<b>517 425</b>	<b>491 475</b>	<b>14 030</b>	<b>1 022 930</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 January 2010	(116 637)	(93 414)	-	(210 051)
Amortisation for the year	(76 107)	(62 271)	-	(138 378)
Balance at 31 December 2010	<b>(192 744)</b>	<b>(155 685)</b>	-	<b>(348 429)</b>
Balance at 1 January 2011	(192 744)	(155 685)	-	(348 429)
Amortisation for the year	(91 778)	(63 930)	(694)	(156 402)
Balance at 31 December 2011	<b>(284 522)</b>	<b>(219 615)</b>	<b>(694)</b>	<b>(504 831)</b>
<b>Carrying amounts</b>				
At 1 January 2010	<b>83 365</b>	<b>398 061</b>	-	<b>481 426</b>
At 31 December 2010	<b>223 462</b>	<b>335 790</b>	-	<b>559 252</b>
At 31 December 2011	<b>232 903</b>	<b>271 860</b>	<b>13 336</b>	<b>518 099</b>

### Amortisation and impairment charge

Amortisation of RUB 156 402 thousand has been charged to selling, general and administrative expenses (2010: RUB 138 378 thousand).

**17 Investment property**

'000 RUB	Investment property	Investment property under construction	Total investment property
<b>Investment properties at fair value as at 1 January 2010</b>	<b>1 161 824</b>	<b>405 600</b>	<b>1 567 424</b>
Additions	-	22 379	22 379
Expenditure on subsequent improvements	3 036	-	3 036
Distribution of assets	(655 824)	(427 979)	(1 083 803)
Fair value gain	7 964	-	7 964
<b>Investment properties at fair value as at 31 December 2010</b>	<b>517 000</b>	<b>-</b>	<b>517 000</b>
<b>Investment properties at fair value as at 1 January 2011</b>	<b>517 000</b>	<b>-</b>	<b>517 000</b>
Transfers from property, plant and equipment	9 260	-	9 260
Expenditure on subsequent improvements	28 107	-	28 107
Fair value gain	18 633	-	18 633
<b>Investment properties at fair value as at 31 December 2011</b>	<b>573 000</b>	<b>-</b>	<b>573 000</b>

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued.

The appraisers used income approach for determining the fair value. An estimate was made of annual net operating income for 5 years which is mainly based on annual net rent rate of RUB 7 900 per sq. m. (2010: RUB 6 800) and expected occupancy. The annual net operating income was assumed to be constant from year 6 to perpetuity. Discount rate of 17% (2010: 18%) was applied to discount future cash flows.

At 31 December 2011 no investment property have been pledged to third parties (2010: RUB 517 000 thousand). Refer to note 25.

Direct operating expenses arising from investment property that generated rental income amounted to RUB 70 773 thousand for the year ended 31 December 2011 (2010: RUB 69 153 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2011 (2010: Nil).

**18 Other non-current assets**

'000 RUB	<u>2011</u>	<u>2010</u>
Initial cost of land lease	3 369 934	2 433 694
Long-term prepayments to entities under control of shareholder group	1 045 171	1 230 054
Prepayments for non-current assets	978 490	383 080
Long-term deposits to lessors	125 406	118 081
Deferred bank commissions	11 501	29 739
	<u><b>5 530 502</b></u>	<u><b>4 194 648</b></u>

Initial cost of land lease includes purchase price and costs directly attributable to acquisition of lease rights and is amortised over the period of the lease (49-51 years).

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2017. Related party transactions are detailed in note 31.

Movements in the carrying amount of initial cost of land lease were as follows:

'000 RUB	<u>2011</u>	<u>2010</u>
<i>Cost</i>		
<b>Balance at 1 January</b>	<b>2 950 601</b>	<b>3 290 913</b>
Additions	1 008 702	249 666
Distribution of assets	-	(517 539)
Disposals	(12 679)	(72 439)
<b>Balance at 31 December</b>	<b>3 946 624</b>	<b>2 950 601</b>
<i>Amortization and impairment losses</i>		
<b>Balance at 1 January</b>	<b>(516 907)</b>	<b>(503 446)</b>
Amortization charge	(60 738)	(46 321)
Distribution of assets	-	29 020
Disposals	955	3 840
<b>Balance at 31 December</b>	<b>(576 690)</b>	<b>(516 907)</b>
<b>Net book value</b>	<u><b>3 369 934</b></u>	<u><b>2 433 694</b></u>

At 31 December 2011 initial cost of land lease carried at RUB 349 591 thousand (2010: RUB 426 795 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 25.

**19 Deferred tax assets and liabilities****(a) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
		Restated*		Restated*		Restated*
Investment property	9 391	55 309	-	-	9 391	55 309
Property, plant and equipment	33 711	-	(520 773)	(473 818)	(487 062)	(473 818)
Construction in progress	-	-	(20 325)	-	(20 325)	-
Intangible assets	-	-	(2 667)	-	(2 667)	-
Investments	-	3 365	-	-	-	3 365
Other non-current assets	88 621	5 522	(104 065)	-	(15 444)	5 522
Inventories	257 552	156 748	-	-	257 552	156 748
Trade and other receivables	110 865	69 037	(49 493)	-	61 372	69 037
Trade and other payables	82 378	68 496	-	-	82 378	68 496
Tax assets/(liabilities)	<b>582 518</b>	<b>358 477</b>	<b>(697 323)</b>	<b>(473 818)</b>	<b>(114 805)</b>	<b>(115 341)</b>
Set off of tax	(226 484)	(164 468)	226 484	164 468	-	-
Net tax assets/(liabilities)	<b>356 034</b>	<b>194 009</b>	<b>(470 839)</b>	<b>(309 350)</b>	<b>(114 805)</b>	<b>(115 341)</b>

\* - see note 2(e)

**(b) Unrecognised deferred tax liability**

As at 31 December 2011 a temporary difference of RUB 14 104 538 thousand (2010: RUB 11 713 761 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

**(c) Movement in temporary differences during the year**

'000 RUB	1 January 2011	Recognised in profit or loss	Recognised in hedging reserve	31 December 2011
	<b>Restated*</b>			
Investment property	55 309	(45 918)	-	9 391
Property, plant and equipment	(473 818)	(13 244)	-	(487 062)
Construction in progress	-	(20 325)	-	(20 325)
Intangible assets	-	(2 667)	-	(2 667)
Investments	3 365	(3 365)	-	-
Other non-current assets	5 522	(20 966)	-	(15 444)
Inventories	156 748	100 804	-	257 552
Trade and other receivables	69 037	32 620	(40 285)	61 372
Trade and other payables	68 496	13 882	-	82 378
	<b>(115 341)</b>	<b>40 821</b>	<b>(40 285)</b>	<b>(114 805)</b>

\* - see note 2(e)

'000 RUB	1 January 2010	Recognised in profit or loss	Recognised in hedging reserve	Distribution to shareholders	31 December 2010
	Restated*	Restated*		Restated*	Restated*
Investment property	(89 166)	19 549	-	124 926	55 309
Property, plant and equipment	(609 762)	8 659	-	127 285	(473 818)
Construction in progress	(26 838)	26 838	-	-	-
Intangible assets	(123)	123	-	-	-
Investments	3 327	38	-	-	3 365
Other non-current assets	59 028	(69 651)	-	16 145	5 522
Inventories	116 294	40 454	-	-	156 748
Trade and other receivables	16 947	52 090	-	-	69 037
Trade and other payables	252 805	(156 156)	(28 153)	-	68 496
Tax loss carry-forwards	113 706	(50 355)	-	(63 351)	-
	<b>(163 782)</b>	<b>(128 411)</b>	<b>(28 153)</b>	<b>205 005</b>	<b>(115 341)</b>

\* - see note 2(e)

## 20 Inventories

'000 RUB	2011	2010
Goods for resale	7 955 952	6 022 609
Raw materials and consumables	344 634	287 597
Write-down to net realisable value	(382 929)	(314 998)
	<b>7 917 657</b>	<b>5 995 208</b>

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 382 929 thousand as at 31 December 2011 (2010: RUB 314 998 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

The write-down is included in cost of goods sold.



**21 Trade and other receivables**

'000 RUB	Note	2011	2010
Trade receivables		45 883	64 966
VAT receivable		936 920	604 032
Prepaid taxes		183 433	23 748
Foreign exchange and interest rate swap receivables	27	320 167	21 896
Other receivables		437 705	561 889
		<b>1 924 108</b>	<b>1 276 531</b>

Taxes prepaid include RUB 176 783 thousand of prepaid income tax (2010: RUB 17 879 thousand).

Other receivables include RUB 336 279 thousand (2010: RUB 349 173 thousand) of bonuses receivable from suppliers.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

**22 Cash and cash equivalents**

'000 RUB	2011	2010
Cash on hand	283 846	204 284
RUB denominated bank current account	558 846	683 249
USD denominated bank current account	100 426	54 280
RUB term deposits (interest rate: 3.5%-7.06%; 2010: 3.2% - 5.75% p.a.)	151 425	3 942 129
Cash in transit	1 847 404	823 243
Cash and cash equivalents	<b>2 941 947</b>	<b>5 707 185</b>

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: Sberbank, Baltiysky Bank, Raiffeisen bank, VTB bank, Credit Evropa bank, Swedbank, TransCredit bank, BSGV, Hansa Bank, Unicredit bank and Uralsib bank.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 27.

## 23 Equity

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2011	2010
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269 074 000	253 100
Split of shares	-	252 846 900
Issued for cash	-	15 974 000
On issue at 31 December, fully paid	269 074 000	269 074 000

As at 31 December 2011 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 2010: EUR 2 691 thousand) is represented by 269 074 000 shares with a par value of 0.01 EUR each.

In October 2010 share capital of O'Key Group S.A. was restructured in the form of share split in proportion of 1000/1 (from 253 100 shares with par value of 10 EUR each to 253 100 000 shares with par value of 0.01 EUR each).

In November 2010 O'Key Group S.A. issued 15 974 000 ordinary shares with par value of 0.01 EUR each. In November 2010 the Group completed its public offering of newly issued shares at USD 11 each and placed GDR's on London Stock Exchange.

Gross proceeds from shares offering amounted to RUB 5 411 517 thousand. Costs directly attributable to shares offering amounted to RUB 174 898 thousand. Net proceeds from shares offering amounted to RUB 5 236 619 thousand. Excess of net proceeds over par value of newly issued shares was recognised in additional paid-in capital for the year ended 31 December 2010 in the amount of RUB 5 226 994 thousand.

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During the year ended 31 December 2011 the Company has transferred RUB 10 486 thousand from net profits for 2010 to legal reserve.

In July 2011 the Group paid interim dividends to shareholders in amount of RUB 772 830 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2011 amounted to RUB 2.9 (2010: RUB 2.3).

In June 2011 shareholders of the Company approved annual dividends for the year ended 31 December 2010. The amount of annual dividends for 2010 was paid by the Group to shareholders as interim dividends in 2010 in the amount of RUB 587 489 thousand.

There were no movements in additional paid-in capital during the year ended 31 December 2011.

## 24 Earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of RUB 3 239 880 thousand (2010: RUB 2 684 008 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000, calculated as shown below. The Company has no dilutive potential ordinary shares.

<i>Number of shares</i>	<b>2011</b>	<b>2010</b>
Issued shares at 1 January	269 074 000	253 100
Effect of share split in 2010	-	252 846 900
Effect of shares issued	-	2 482 203
Weighted average number of shares for the year ended 31 December	<u>269 074 000</u>	<u>255 582 203</u>

## 25 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 27.

<b>'000 RUB</b>	<b>2011</b>	<b>2010</b>
<i>Non-current liabilities</i>		
Secured bank loans	5 807 982	6 960 333
Unsecured loans from Related parties	960 300	909 022
	<u>6 768 282</u>	<u>7 869 355</u>
<i>Current liabilities</i>		
Secured bank loans	1 417 354	1 796 655
Unsecured bank facilities	3 877 808	1 902 747
Unsecured loans from third parties	7 786	2 859
	<u>5 302 948</u>	<u>3 702 261</u>

As at 31 December 2011 loans and borrowings with carrying value of RUB 7 225 336 thousand (2010: RUB 8 756 988 thousand) were secured by property, plant and equipment and initial cost of land lease. Refer to note 30.

**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

'000 RUB	Currency	Nominal interest rate	Year of maturity	31 December 2011		31 December 2010	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	LIBOR + 3.9-5%	2013	671 941	671 941	838 165	838 165
Secured bank loan	USD	LIBOR + 3.15%	2010-2015	5 095 856	5 095 856	5 677 945	5 677 945
Secured bank loan	RUB	7%	2011-2012	-	-	735 290	735 290
Secured bank loan	RUB	8.5%	2015	1 457 539	1 457 539	1 505 588	1 505 588
Unsecured bank facility	RUB	8%	2013	302	302	-	-
Unsecured bank facility	RUB	8.85-9.85%	2012	370 090	370 090	-	-
Unsecured bank facility	RUB	6.35 - 7.9%	2012	3 507 416	3 507 416	1 302 747	1 302 747
Unsecured bank facility	RUB	6,75%	2011	-	-	600 000	600 000
Unsecured loans from related parties	USD	8%	2013	654 595	654 595	619 640	619 640
Unsecured loans from related parties	USD	8%	2013	305 705	305 705	289 382	289 382
Unsecured loans from other companies	RUB	0%	2012	2 862	2 862	2 859	2 859
Unsecured loans from other companies	RUB	7-12%	2012	10	10	-	-
Unsecured loans from other companies	RUB	0%	2012	4 914	4 914	-	-
				<b>12 071 230</b>	<b>12 071 230</b>	<b>11 571 616</b>	<b>11 571 616</b>

**(b) Compliance with loan covenants**

The Group monitors compliance with loan covenants on an ongoing basis. Where incompliance is unavoidable in managements' view, the Group obtains waiver letters from the banks before the year-end, confirming that the banks shall not use its right to demand early redemption.

At 31 December 2011 and during the year then ended the Group complied with all loan covenants.

**26 Trade and other payables**

'000 RUB	Note	2011	2010
Trade payables		13 885 863	10 505 712
Advances received		120 456	130 878
Taxes payable (other than income tax)		395 160	388 238
Payables to staff		791 050	634 130
Interest rate swap liabilities	27	-	28 611
Short-term liabilities incurred in share-based payment transactions	11	33 334	-
Deferred income		34 309	-
Other current payables		77 387	49 395
		<b>15 337 559</b>	<b>11 736 964</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

**27 Financial instruments and risk management****(a) Overview**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

**(i) Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUB	Note	Carrying amount	
		2011	2010
Trade and other receivables	21	483 588	626 855
Interest rate and foreign exchange swap receivables		320 167	-
Loans issued		-	1 369
Cash and cash equivalents	22	2 941 947	5 707 185
		<b>3 745 702</b>	<b>6 335 409</b>

Due to the fact that the Group's principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

**(ii) Trade and other receivables**

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key outlets. Thus, the credit risk in part of Trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

**Impairment losses**

The aging of trade and other receivables at the reporting date was:

'000 RUB	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not overdue and past due less than 90 days	422 770	-	517 257	-
Past due 90-180 days	21 527	-	64 818	-
Past due 180-360 days	10 262	-	18 997	-
More than 360 days	73 255	(44 226)	134 205	(108 422)
	<u>527 814</u>	<u>(44 226)</u>	<u>735 277</u>	<u>(108 422)</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 RUB	2011	2010
Balance at beginning of the year	108 422	104 923
Impairment loss recognised	31 973	36 841
Impairment loss reversed	(61 884)	-
Impairment loss utilised	(34 285)	(33 342)
Balance at end of the year	<u>44 226</u>	<u>108 422</u>

The management has performed thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than 1 year. Based on past experience the management believes that normally the balances outstanding less than 360 days should not be impaired.

**(iii) Cash and cash equivalents**

The Group held cash and cash equivalents of RUB 2 941 947 thousand at 31 December 2011 (2010: RUB 5 707 185 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated ruAAA based on Standard and Poor's national rating for Russian Federation and AAA.ru based on Moody's Investors Service national rating for Russian Federation.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 2.5;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) **Exposure to liquidity risk**

The following are the contractual maturities of financial liabilities, including future interest payments:

2011

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
<b>Non-derivative financial liabilities</b>					
Secured bank loans	7 225 336	(8 077 028)	(885 672)	(853 208)	(6 338 148)
Unsecured bank facilities	3 877 808	(4 026 728)	(3 994 472)	(32 256)	-
Unsecured loans from related parties	960 300	(1 047 602)	(37 886)	(37 886)	(971 830)
Unsecured loans from other companies	7 786	(7 798)	(4 935)	(2 863)	-
Trade and other payables	14 754 300	(14 754 300)	(14 754 300)	-	-
Other non-current liabilities	965 883	(965 883)	-	-	(965 883)
<b>Derivative financial assets</b>					
Foreign exchange and interest rate swap receivables	(320 167)	(350 286)	(101 830)	(87 244)	(161 212)
	<b>27 471 246</b>	<b>(29 229 625)</b>	<b>(19 779 095)</b>	<b>(1 013 457)</b>	<b>(8 437 073)</b>



## 2010

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
<b>Non-derivative financial liabilities</b>					
Secured bank loans	8 756 988	(9 932 166)	(1 190 180 )	(1 009 730)	(7 732 256)
Unsecured bank facilities	1 902 747	(1 971 644)	(1 355 222)	(616 422)	-
Unsecured loans from related parties	909 022	(1 072 397)	(35 863)	(35 863)	(1 000 671)
Unsecured loans from other companies	2 859	(2 861)	(1)	(2 860)	-
Trade and other payables	11 189 237	(11 189 237)	(11 189 237)	-	-
Other non-current liabilities	914 307	(914 307)	-	-	(914 307)
<b>Derivative financial liabilities</b>					
Foreign exchange and interest rate swap receivables	(21 896)	(798 194)	(162 365)	(145 995)	(489 834)
Interest rate swap liability	28 611	(28 696)	(13 147)	(13 325)	(2 224)
	<u>23 681 875</u>	<u>(25 909 502)</u>	<u>(13 946 015)</u>	<u>(1 824 195)</u>	<u>(10 139 292)</u>

There are no payments due after 5 years.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss.

**(i) Currency risk**

The Group holds its business in Russian Federation and mainly collects receivables nominated in Russian Roubles. However financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to acceptable level by keeping proportion of financial assets and liabilities in foreign currencies to total financial liabilities at acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers

necessity of using derivatives to hedge its exposure to currency risk. During 2011 the Group used currency swap in order to hedge currency risk on loan denominated in US Dollars.

### Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUB	USD-	USD-
	denominated	denominated
	2011	2010
Trade and other receivables	41 632	193 709
Secured bank loans	(5 767 797)	(6 516 110)
Unsecured loans from related parties	(960 300)	(909 022)
Trade and other payables	(118 925)	(93 495)
Other non-current liabilities	(965 883)	(914 307)
Foreign exchange and interest rate swap receivables	320 167	21 896
Interest rate swap liabilities	-	(28 611)
Gross exposure	<u>(7 451 106)</u>	<u>(8 245 940)</u>
Of which carrying amount of hedged secured bank loans	5 095 856	5 677 945
Net exposure	<u><u>(2 355 250)</u></u>	<u><u>(2 567 995)</u></u>

The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate		Reporting date rate	
	2011	2010	2011	2010
US Dollar	29.3874	30.3692	32.1961	30.4769

### Sensitivity analysis

A 10% strengthening of the RUB, as indicated below, against USD at 31 December 2011 would have increased equity by RUB 745 111 thousand (2010: RUB 256 800 thousand) and profit or loss by RUB 267 542 thousand (2010: RUB 272 992 thousand). This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

A weakening of the RUB against USD at 31 December would have had the equal but opposite effect on equity and profit and loss, on the basis that all other variables remain constant.

**(ii) Interest rate risk**

The Group has material exposure to interest rate risk. As at 31 December 2011 76% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2010: 70%).

The Group uses swaps to hedge its exposure to variability of interest and exchange rates. As at 31 December 2011 the Group had foreign exchange and interest swap agreement with VTB Bank. Under this agreement the Group swaps LIBOR rate for fixed rate of 9.5% and swaps USD for RUB at fixed rate of 30.4 RUB/USD. At inception, the swap had maturity of five years.

The Group hedged 88% (2010: 87%) of its borrowings with variable rate applying this hedge.

**Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUB	Carrying amount	
	2011	2010
<b>Fixed rate instruments</b>		
Financial assets	-	1 369
Financial liabilities	(6 303 433)	(5 055 560)
<b>Variable rate instruments</b>		
Financial assets	320 167	21 896
Financial liabilities	(5 767 797)	(6 544 721)

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

'000 RUB	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>2011</b>				
Variable rate instruments	(57 575)	57 575	-	-
Interest rate swap	50 870	(50 870)	80 942	(57 177)
Cash flow sensitivity (net)	(6 705)	6 705	80 942	(57 177)
<b>2010</b>				
Variable rate instruments	(65 049)	65 049	-	-
Interest rate swap	56 687	(56 687)	183 199	(183 199)
Cash flow sensitivity (net)	(8 362)	8 362	183 199	(183 199)

**(e) Fair value hierarchy**

Group's derivative financial assets and liabilities comprise foreign exchange and interest rate swaps which are carried at fair value. Fair value of swaps was determined based on observable market data, including forward foreign exchange and interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs.

**(f) Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

**28 Operating leases****Leases as lessee**

The Group has both own and leased land plots. The own land plots are included in property, plant or equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalized as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to 10 years. Some of Group's leases are non-cancellable and contain contingent rent arrangements. The Group has subleases.

During the year ended 31 December 2011 RUB 1 733 354 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUB 60 738 thousand) in the profit and loss in respect of operating leases (2010: RUB 1 116 256 thousand).

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	2011	2010
Less than one year	222 673	198 137
Between one and five years	744 618	558 697
More than five years	5 248 576	3 278 600
	6 215 867	4 035 434

Contingent rent recognised as an expense for the year ended 31 December 2011 amounted RUB 596 634 thousand (2010: RUB 108 800 thousand). Contingent rent is determined as excess of 3%-5% of the revenue of related stores over fixed rent rate.

#### **Leases as lessor**

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2011 RUB 733 164 thousand was recognised as rental income in the consolidated statement of comprehensive income (2010: RUB 705 937 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 4 238 thousand for the year ended 31 December 2011 (2010: RUB 20 701 thousand). Contingent rent is determined as excess of 7%-35% of the tenant's revenue over fixed rent rate.

## **29 Capital commitments**

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 1 661 253 thousand as at 31 December 2011 (2010: RUB 1 877 202 thousand).

## **30 Contingencies**

### **(a) Legal proceedings**

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims.

### **(b) Taxation contingencies**

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes

contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group companies entered into intragroup transactions which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules and practical application of the law, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

The Group has treated bonuses received from suppliers based on clarifications issued by the Russian Ministry of Finance, and management believes that this approach is consistent with applicable tax law. However, based on uncertainty of tax legislation and recent development of court practice, the tax authorities could take a different position and attempt to assess additional tax liabilities.

The potential amount of such assessment cannot be reasonably estimated due to uncertainty of legislation and absence of practise in determining of the amount of additional tax liabilities, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

(c) **Assets pledged or restricted**

At 31 December 2011 the Group has the following assets pledged as collateral:

'000 RUB	Note	2011	2010
	2(e)	<u>          </u>	<u>Restated</u>
Fixed assets (carrying value)	15	4 214 640	4 897 301
Investment property (carrying value)	17	-	517 000
Initial cost of land lease (carrying value)	18	349 591	426 795
<b>Total</b>		<u><u>4 564 231</u></u>	<u><u>5 841 096</u></u>

### 31 Related party transactions

#### (a) Major shareholders

The major shareholders of the Group are four individuals Mr. Korzhev, Mr. Troitsky, Mr. Volchek and Mr. Teder ("the shareholder group").

#### (b) Transactions with management

##### (i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

'000 RUB	2011	2010
Salaries and bonuses	125 339	168 277
Social security contributions	660	147
Long-service bonus	71 839	41 333
Share-based payments	31 321	-
	229 159	209 757

In addition members of Board of Directors received remuneration in the amount of RUB 8 858 thousand for the year ended 31 December 2011 (2010: RUB 1 523 thousand) which is included in Legal and professional expenses (see note 8).

#### (c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1(a)).

The Group's other related party transactions are disclosed below.

##### (i) Revenue

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Services provided:				
Other related parties	21 689	23 153	(3 786)	(1 694)
	21 689	23 153	(3 786)	(1 694)

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

**(ii) Expenses**

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Lease of premises				
Other related parties	(647 768)	-	1 179 569	1 334 466
Other services received:				
Other related parties	(24 036)	(31 730)	9 722	11 822
Finance costs:				
Other related parties	(70 169)	(121 128)	-	-
	<u>(741 973)</u>	<u>(152 858)</u>	<u>1 189 291</u>	<u>1 346 288</u>

In 2011 no finance costs from related parties were capitalized in cost of property, plant and equipment (2010: RUB 1 371 thousand).

Outstanding balance for lease of premises as at 31 December 2011 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 1 230 054 thousand (2010: RUB 1 334 466 thousand) and current liabilities for rent of hypermarkets in the amount RUB 50 485 thousand (2010: Nil). Long-term part of prepayments is RUB 1 045 171 thousand (2010: RUB 1 230 054 thousand), refer to note 18.

All other outstanding balances are to be settled in cash within six months of the reporting date. None of the balances are secured.

**(iii) Loans**

'000 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Loans received:				
Other related parties	-	-	(960 300)	(909 022)

The loans from other related parties bear interest at 8% per annum and are repayable in 2013.

**(d) Pricing policies**

Related party transactions are not necessarily based on market prices.

During 2010 the Group disposed several subsidiaries to an entity controlled by the shareholder group. For more details on disposition refer to note 6 above.



## 32 Subsidiaries

Subsidiary	Country of incorporation	2011	2010
		Ownership/voting	Ownership/voting
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
LLC O'Key Group	Russian Federation	100%	100%
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor	Russian Federation	100%	100%
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%

Subsidiary	Country of incorporation	2011	2010
		Ownership/voting	Ownership/voting
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
JSC Olips D	Russian Federation	100%	100%
LLC Lux Development	Russian Federation	100%	-
LLC Djemir Invest	Russian Federation	100%	-
LLC Kbr-Torg	Russian Federation	100%	-
JCS START Krasnoselsky	Russian Federation	100%	-
LLC Fresh Market	Russian Federation	100%	-

The Group has 50% share in joint venture LLC Adamant-Diksi which is accounted for using proportionate consolidation method. Contribution of LLC Adamant-Diksi to the Group's profit for the year and effect on Group's assets and liabilities is not significant. LLC Adamant-Diksi is under liquidation now.

During 2011 the Group acquired four subsidiaries: LLC Djemir Invest, LLC Lux Development, LLC Kbr-Torg and JCS START Krasnoselsky for the purpose of obtaining lease rights on the land plots. The acquisition of subsidiaries was classified as acquisition of assets, because acquired entities do not constitute a business.

The Group plans to develop a network of discount stores under the brand name "DA", for this purpose LLC 'Fresh Market' was established. LLC Fresh Market had no significant activities in 2011.

### 33 Events subsequent to the reporting date

In January 2012 the Group acquired 100% share in LLC TC Djemir for RUB 160 000 thousand in order to obtain rights of long-term lease of land plot in Chelyabinsk region. The acquisition of subsidiaries is classified as acquisition of assets.

Subsequent to the reporting date the Group has opened three hypermarkets in Ufa, Voronezh and Tumen.

In February 2012 the Group paid to shareholders interim dividends for 2012 in the amount of RUB 833 514 thousand.